



**A Survey of SME Accounting
and Reporting Practices in
Austria**



The World Bank Centre for Financial Reporting Reform

Acknowledgements

This Report was jointly prepared by the World Bank Centre for Financial Reporting Reform (CFRR) and the Austrian Institute for SME Research. The Austrian Institute for SME research carried out the survey and performed the initial analysis of its results. The CFRR used these results to prepare this report.

This project was funded by the Economic Policy Department and the Institute for Economic Promotion (WIFI) of the Austrian Federal Economic Chamber.¹

Principal Authors: Bernhard Lindner (Operations Analyst, CFRR) and Kerstin Hoelzl (Researcher, Austrian Institute for SME Research).

The authors are grateful to Henri Fortin (Head, CFRR), Peter Voithofer (Director, Austrian Institute for SME Research), and Pascal Frerejacque (Senior Operations Officer, CFRR) for their advice and guidance.

Editorial consultant: James Francis Owen (Consultant, CFRR)

Contacts:

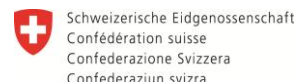
**Centre for Financial Reporting Reform
Europe and Central Asia Region - The World Bank**
Praterstrasse 31 – 19th Floor, 1020 Vienna, Austria
Phone: +43 (0)1 2170700
Email: cfr@worldbank.org
Web: www.worldbank.org/cfr

**KMU Forschung Austria -
Austrian Institute for SME Research**
Gusshausstrasse 8, 1040 Vienna, Austria
Phone: +43 (0)1 5059761
Email: office@kmuforschung.ac.at
Web: www.kmuforschung.ac.at

This Report forms part of the Road to Europe Program of Accounting Reform and Institutional Strengthening (REPARIS) activities of the World Bank's Centre for Financial Reporting Reform (CFRR) in Vienna, Austria.

Through REPARIS, the CFRR aims at supporting the development of a policy environment and an institutional framework favoring the introduction, implementation and enforcement of an effective system of corporate financial reporting within countries of the Western Balkans² and Moldova.

REPARIS is made possible by the generous support of



¹ The annex provides more information on these organizations.

² Albania, Bosnia and Herzegovina, Croatia, Kosovo, Former Yugoslav Republic of Macedonia, Montenegro, and Serbia.



Contents

OVERVIEW	4
1 ACCOUNTING PRACTICES IN AUSTRIAN SMES	6
1.1 ACCOUNTING SYSTEMS.....	6
1.2 OTHER DOCUMENTATION	7
1.3 REASONS FOR PREPARING FINANCIAL STATEMENTS.....	7
1.4 OUTSOURCING OF THE PREPARATION OF FINANCIAL STATEMENTS	8
1.5 EXTERNAL SERVICE PROVIDERS	9
1.6 COMPLYING WITH ACCOUNTING REQUIREMENTS	10
1.7 SOURCES OF INFORMATION AND ADVICE	11
1.8 KEY RESULTS	12
2 AUDITING FINANCIAL STATEMENTS	13
2.1 INTRODUCTION.....	13
2.2 AUDITING FINANCIAL STATEMENTS	13
2.3 KEY RESULTS	16
3 SME FINANCING	17
3.1 KEY RESULTS	18
4 FINANCIAL REPORTING AND ACCESS TO FINANCE	19
4.1 BANKS' DOCUMENTATION REQUIREMENTS	19
4.2 APPLICATIONS FOR BANK FINANCING	20
4.3 PURPOSE OF THE LOANS	22
4.4 KEY RESULTS	23
ANNEX	24
METHODODOLOGY	24
THE AUSTRIAN SME SECTOR	26
ORGANIZATION PROFILES.....	30

Abbreviations

CFRR	World Bank Centre for Financial Reporting Reform
KWT	Kammer der Wirtschaftstreuhänder, Chamber of Certified Public Accountants
LLC	Limited Liability Company
NACE	Nomenclature statistique des Activités économiques dans la Communauté Européenne (the statistical classification of economic activities used by statistical institutions in the EU)
SME	Small and Medium Enterprise
WKOE	Wirtschaftskammer Oesterreich, Austrian Federal Economic Chamber
WIFI	Wirtschaftsfoerderungsinstitut, Institute for Economic Promotion

Overview

This report gives an overview of the key results from the analysis of the data collected in a survey conducted in October and November 2012 by the Austrian Institute for SME Research on behalf of the World Bank Centre for Financial Reporting Reform (CFRR).

The survey was carried out using an online questionnaire and captures data from more than 780 small and medium-sized enterprises that are representative of the Austrian SME sector.

The primary purpose of this report is to assist the accounting and auditing profession, policy makers, and users of financial information in understanding the value and the constraints of SMEs' financial reporting practices. It also feeds into a broader CFRR study on Corporate Financial Reporting Reform in Austria.

The report presents the results of the survey grouped by topical areas as follows:

- » Accounting Practices in Austrian SMEs
- » Auditing Financial Statements
- » SME Financing
- » Financial Reporting and Access to Finance

Key results are summarized below.

» ***SMEs use financial statements to improve financial management and to secure access to finance***

Austrian SMEs are required by law to draw up financial statements. 63% of Austrian SMEs use their financial statements often or very often, and they consider financial reporting useful to improve the financial management of their business. Half of Austrian SMEs use their financial statements often or very often to secure supplier credit or a bank loan.

» ***Austrian SMEs face some challenges in relation to their accounting obligations***

More than half of Austrian SMEs consider the complexity of accounting requirements (58%) and the time required for preparing accounting and financial reports (57%) as very or rather high. The cost of compliance with accounting requirements is regarded as (very or rather) high by 56% of SMEs.

» ***Most SMEs outsource the preparation of financial statements to specialist service providers***

Almost three-quarters of all Austrian SMEs outsource all the preparation of their financial statements to specialist service providers. SMEs are generally very satisfied with the services provided by these specialist firms. Only 8% of SMEs prepare their financial statements in-house (i.e., without an external service provider) and more than half of these benefit from the advice of their local business association and professional organizations for public accountants and tax advisers.

» ***Austrian SMEs see value in having audited financial statements beyond the legal compliance aspect***

In Austria, only corporations ("AG") or limited liability companies (LLCs, or "GmbH") are legally required to have their financial statements audited (partnerships and other forms are not). The majority of LLCs participating in the survey see value in having their financial statements audited. Indeed, they consider that audits (i) enhance the credibility of their financial statements (56% of participating LLCs), and (ii) strengthen their internal controls (51%).

» ***Banks are the single most prominent source of financing for Austrian SMEs***

Banks are the most common source of investment-financing for SMEs. More than two-thirds (67%) of Austrian SMEs with investment requirements in the past 3 years used bank financing to meet their needs.



» *SMEs perceive an increase in banks' documentation requirements when drawing a credit*

Most Austrian SMEs that have received bank financing for their investments over the past 3 years consider that banks' documentation requirements became much (30%) or slightly (28%) tougher during this period.

The analysis of the data collected in the Survey on Small and Medium Enterprise Financial Reporting suggests that financial statements, both audited and unaudited, play a valued role for SMEs; not only for tax purposes, but also in helping SMEs improve the financial management of their businesses and facilitate their access to bank financing.

The findings that the majority of SMEs encounters challenges in complying with accounting requirements and that most SMEs outsource the preparation of their financial statements to specialist service providers suggest that SMEs' potential use of financial reporting in Austria is very much dependent on:

- » (i) a system that strikes the appropriate balance between promoting improved financial information and lessening the regulatory burden.
- » (ii) the accounting and auditing profession's capacity to provide reasonable assurance regarding the data accuracy of the financial information provided in a SME credit application.

Preparing financial statements requires efforts and resources and, as might be expected, a number of SMEs find bookkeeping and reporting obligations costly. At the same time, SMEs are generally satisfied with the services provided by external service providers.

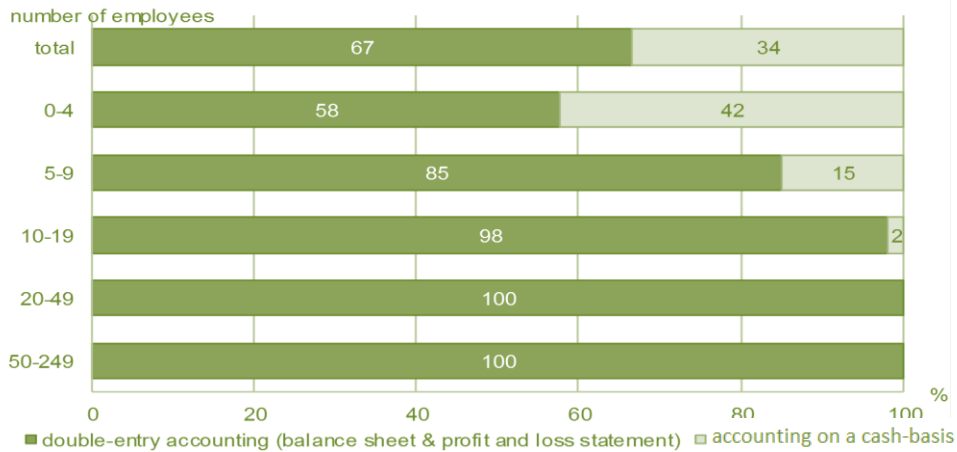


1 Accounting practices in Austrian SMEs

1.1 Accounting systems

Two-thirds of Austrian SMEs apply double-entry accounting. A third of SMEs prepare their accounts on a cash-basis only. As might be expected from the legal framework, which requires larger SMEs to apply double-entry bookkeeping, the share of enterprises with double-entry accounting increases as the size of enterprise increases.

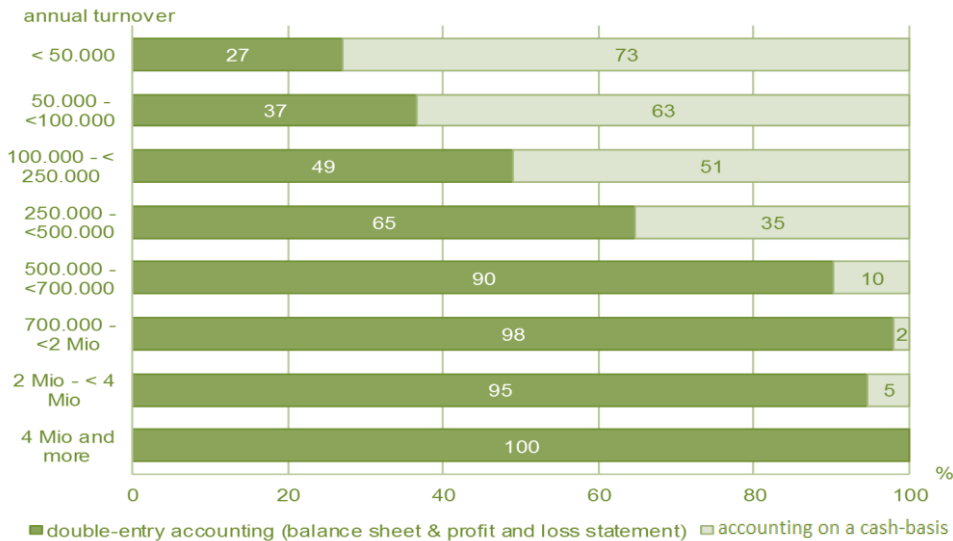
Figure 1 Accounting system, by number of employees, Austrian SMEs, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=784)

However, many enterprises that are not obliged to apply double-entry accounting do so voluntarily. For example, nearly half of SMEs with an annual turnover between EUR 100,000 and EUR 250,000 apply double-entry accounting, even though SMEs are currently only required to do so once their annual turnover exceeds EUR 700,000.

Figure 2 Accounting system, by annual turnover, Austrian SMEs, 2012

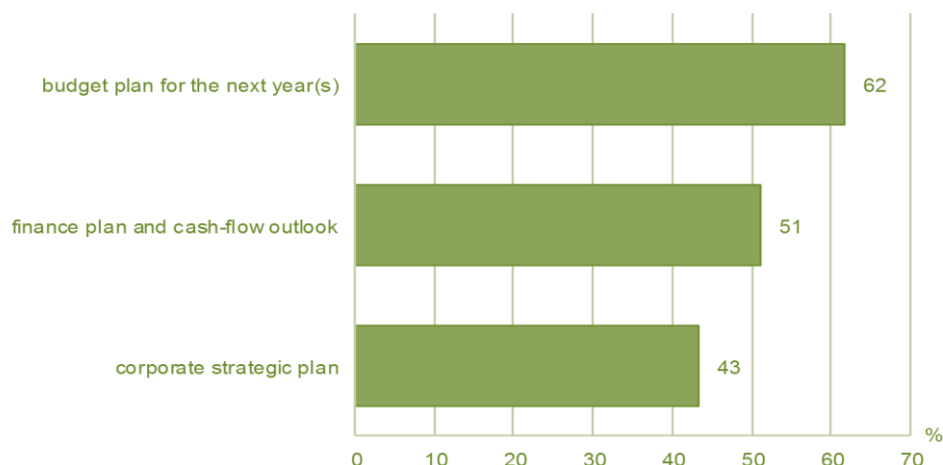


Source: Austrian Institute for SME Research, online survey October/November 2012 (n=751)

1.2 Other documentation

In addition to annual accounts, 62% of Austrian SMEs prepare a budget plan for the next year or years. 51% prepare a finance plan and a cash-flow outlook, 43% prepare a corporate strategic plan. Larger SMEs are more likely to prepare such additional documentation than smaller SMEs.

Figure 3 Proportion of SMEs preparing additional documentation to the annual accounts, 2012

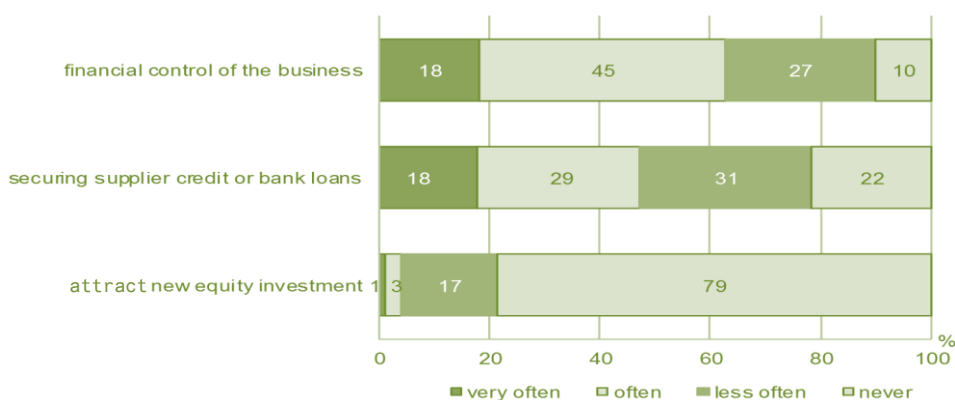


Source: Austrian Institute for SME Research, online survey October/November 2012 (n=535)

1.3 Reasons for preparing financial statements

All Austrian enterprises are required for tax purposes to prepare an income statement or (for larger firms) both a balance sheet and a profit and loss account.³ However, Austrian SMEs also use these financial statements for other purposes. 63% of SMEs use their financial statements (very) often for the financial control of their business and 47% of SMEs use them to assist in obtaining supplier credits or bank loans. The use of financial statements to secure supplier credits or bank loans is more frequent in those enterprises that outsource the preparation of their financial statements to an external service provider (49%) than it is in those enterprises that prepare them in-house (41%). However, only 4% of SMEs (very) often use their financial statements to help attract new equity investment in the firm.

Figure 4 Reasons for the preparation of financial statements (beside tax purposes), Austrian SMEs, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 573 and 716 depending on category)

³ In the following these documents are referred to as “financial statements”.

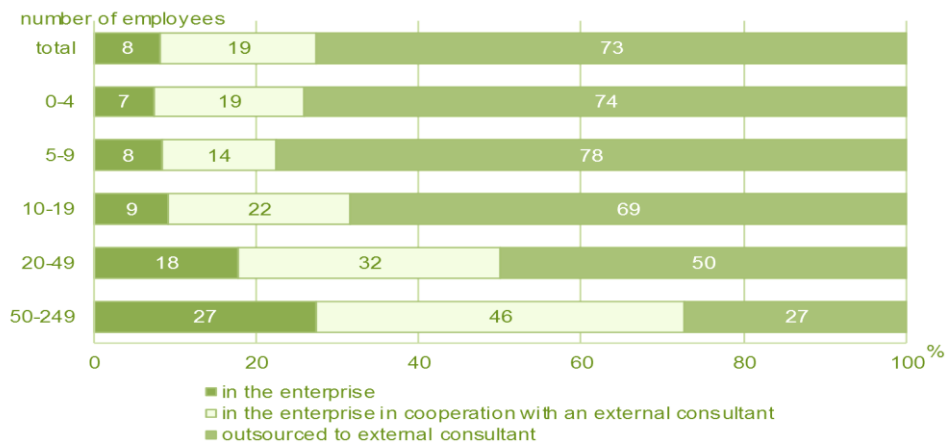


Larger SMEs are more likely to use their financial statements for other reasons than tax purposes. While only 42 % of companies with fewer than 5 employees use their financial statements for securing credits or loans, 83 % of medium-sized companies (with 50 to 249 employees) do so.

1.4 Outsourcing of the preparation of financial statements

Almost three-quarters of Austrian SMEs outsource the preparation of their financial statements. 19% of SMEs prepare financial statements in cooperation with external service providers and only 8% of SMEs produce their financial statements in the enterprise (without an external service provider). Smaller companies are more likely to outsource the preparation of financial statements than larger ones; conversely, larger SMEs are more likely to prepare financial statements in-house (without using an external service provider) than are smaller ones.

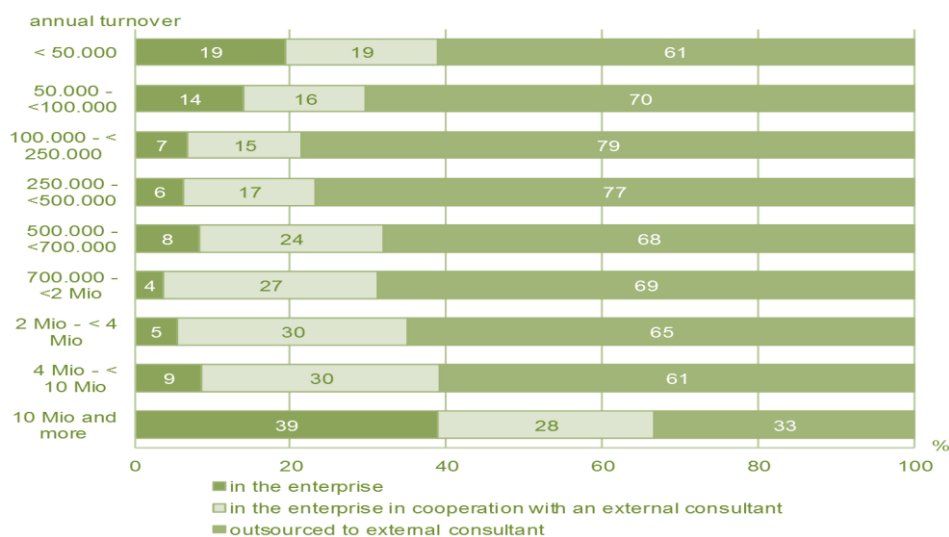
Figure 5 Methods used by Austrian SMEs to prepare financial statements, by number of employees, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=784)

Enterprises with an annual turnover of € 10 million and more are most likely to prepare financial statements in-house (39% of such firms do so). However, 19 % of very small companies with an annual turnover of less than € 50,000 also prepare their financial statements in-house. Most of these very small companies (73%) prepare income statements only.

Figure 6 Preparation of financial statements, by annual turnover, Austrian SMEs, 2012

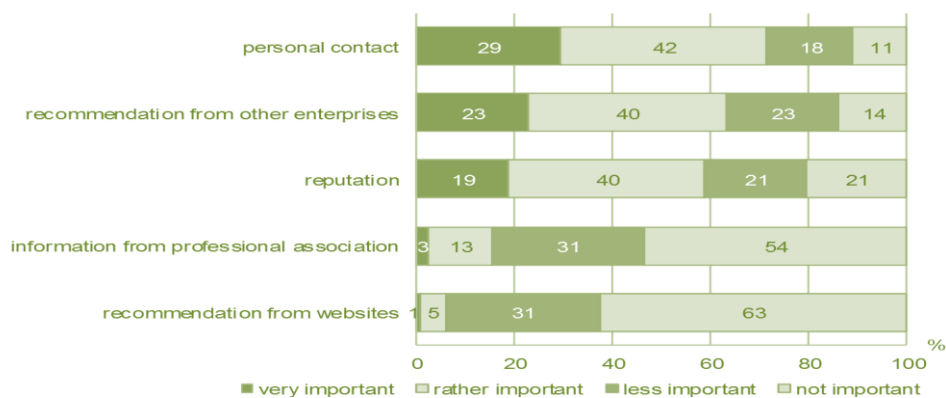


Source: Austrian Institute for SME Research, online survey October/November 2012 (n=761)

1.5 External service providers

The most important factor for Austrian SMEs in selecting an external service provider to prepare their financial statements is personal contact (very or rather important for 72% of those SMEs who use the services of external providers), followed by recommendations from other enterprises (important for 63%). For 59% of such SMEs the reputation of the service provider is very or rather important.

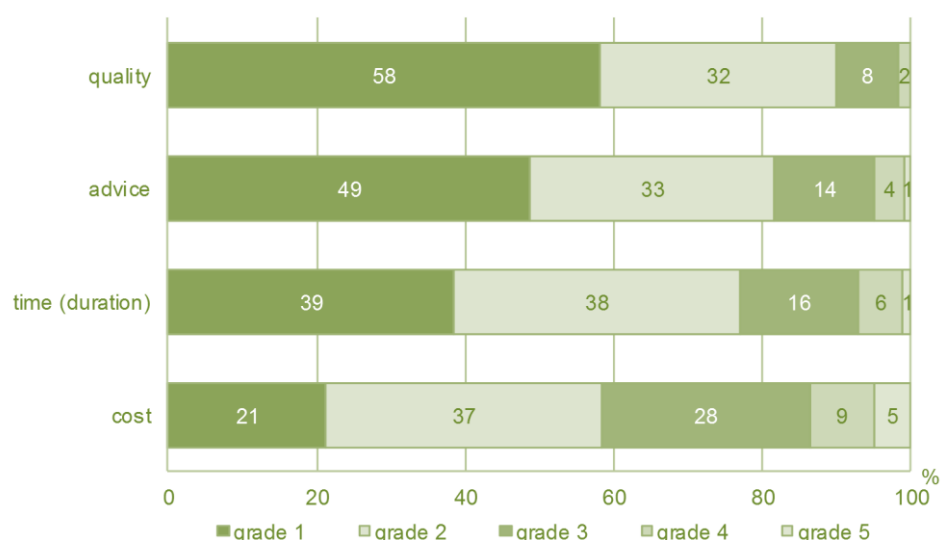
Figure 7 Rating of reasons for selecting external service provider for those SMEs which prepare financial statements in cooperation with external service providers or outsource their preparation to external service providers, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 480 and 633 depending on category)

Most Austrian SMEs using external service providers in the field of financial reporting (90%) are (very) satisfied with the quality of the services that they receive. 82% of such SMEs consider the advice given by their professional service providers to be (very) satisfactory, 77% are also (very) satisfied with the time-efficiency of the services provided. Even the costs are regarded as (very) satisfactory by 58% of the SMEs buying such services.

Figure 8 Rating of services provided by external service providers, for those SMEs which prepare financial statements in cooperation with external service providers or outsource their preparation to external service providers, 2012



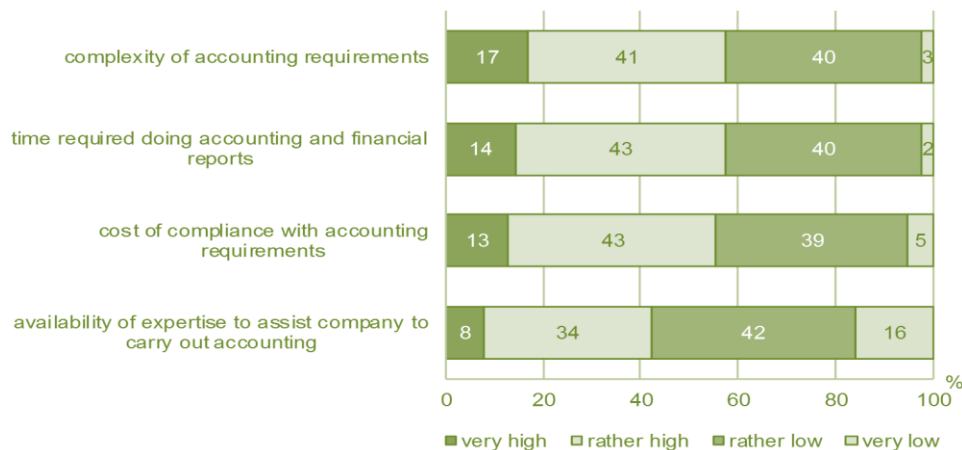
Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 670 and 673 depending on category)

In addition to preparing financial statements, filing tax returns is the most prominent service for which SMEs hire external service providers. 94 % of Austrian SMEs do so.

1.6 Complying with accounting requirements

57 % of Austrian SMEs consider the complexity of accounting requirements and the time required for preparing accounting and financial reports to be either very or rather high. The availability of expertise to assist a company to carry out accounting is considered as rather low or very low by 58 % of Austrian SMEs. The cost of compliance with accounting requirements is regarded as (very or rather) high by 56 %.

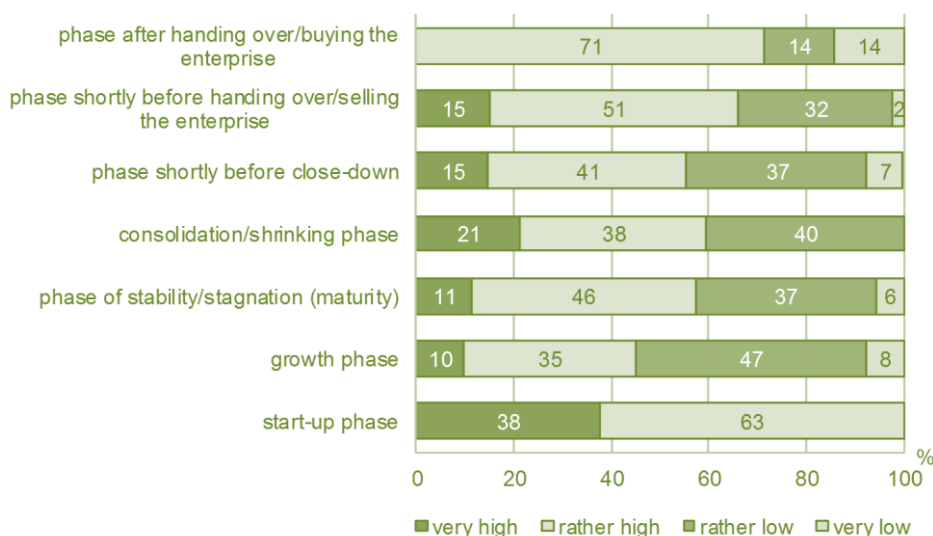
Figure 9 Rating of aspects related to accounting, Austrian SMEs, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 703 and 761 depending on category)

Especially among start-up enterprises, the costs of compliance with accounting requirements are perceived as very high.

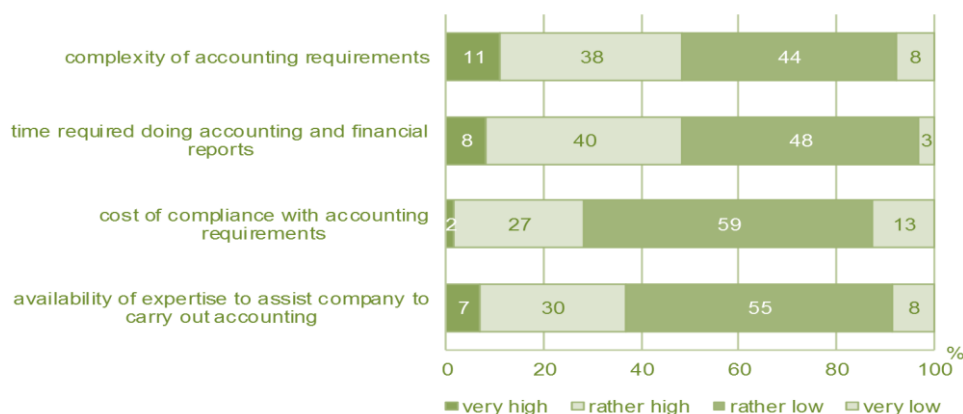
Figure 10 Austrian SMEs' assessment of the cost of complying with accounting requirements, by stage of enterprise's development, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n = 752)

In particular, those companies that carry out their accounting without using an external service provider view the cost and complexity of accounting requirements as being significantly lower than do SMEs in general. Such SMEs also report more serious constraints in getting access to assisting expertise than do SMEs in general (63 % of such SMEs report that the availability external expertise is rather or very low, compared to 58 % for SMEs as a whole).

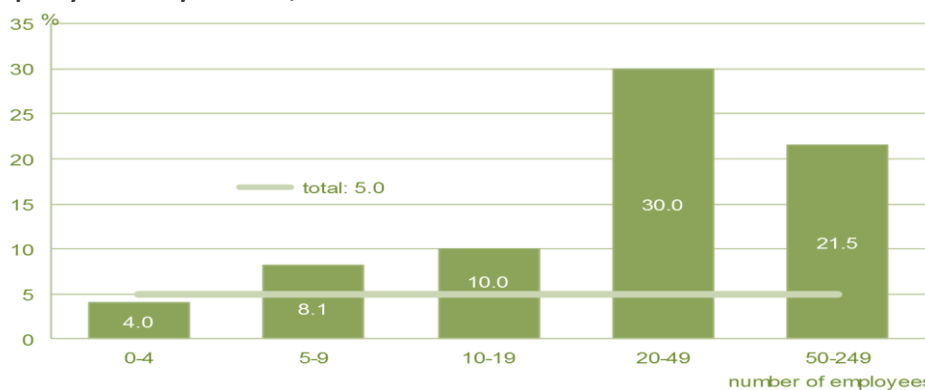
Figure 11 Rating of aspects related to accounting, Austrian SMEs that prepare financial statements in the enterprise (without using an external service provider), 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 61 and 66 depending on category)

The median Austrian SME that has not fully outsourced its accounting (27% of all SMEs) spends approximately 5 person-days per month on meeting the enterprise’s accounting requirements. Initially, the number of person-days that are dedicated to accounting within a company increases as the size of the enterprise rises. However, medium-sized enterprises (50-249 employees) dedicate fewer person-days within the firm to accounting duties than do companies with 20-49 employees, as external service providers are increasingly engaged for preparing the accounts and financial statements.

Figure 12 Median persons-days per month spent on meeting accounting reporting requirements, by number of employees for those Austrian SMEs which prepare financial statements either partly or wholly in house, 2012

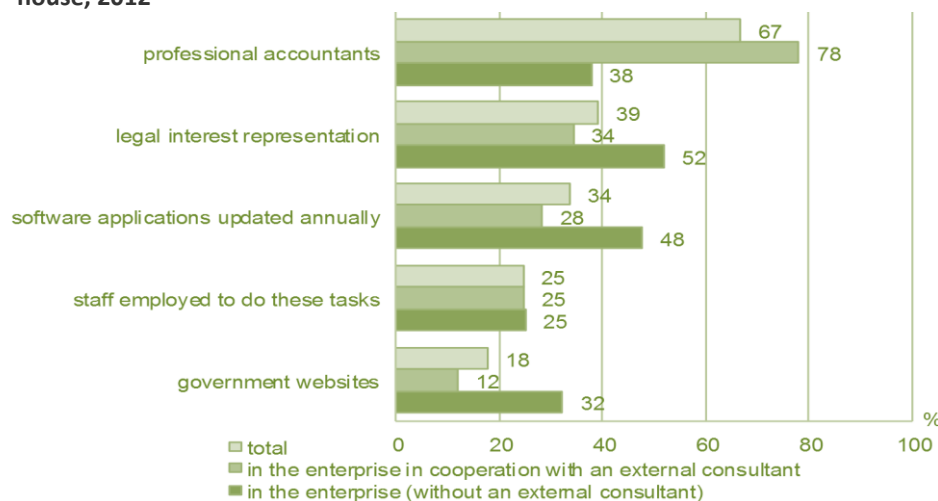


Source: Austrian Institute for SME Research, online survey October/November 2012 (n=201)

1.7 Sources of information and advice

More than half (52%) of those SMEs which prepare financial statements without help from an external service provider receive information and advice regarding financial requirements including accounting and tax rules from professional or branch bodies. Nearly half use specialist software applications as a source of such information and a third obtains information from official websites.

Figure 13 Information and advice regarding financial reporting requirements incl. accounting and tax rules for those Austrian SMEs which prepare financial statements either partly or wholly in house, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=208)

1.8 Key Results

» Many SMEs voluntarily maintain double entry accounting

Double-entry accounting is very common in Austria even in SMEs that are not legally required to keep double-entry accounts. Two-thirds (67%) of all SMEs prepare a balance sheet and a profit and loss account.

» Financial statements are often used to improve financial controls and to secure access to finance

Austrian SMEs are required to draw up financial statements for tax purposes. 63% of Austrian SMEs also use their financial statements (very) often to improve the financial control of their business and just under half of Austrian SMEs (47%) use their financial statements (very) often to secure supplier credits or bank loans.

» Most SMEs outsource the preparation of financial statements to external service providers

Almost three-quarters (73%) of all SMEs outsource all the preparation of financial statements to external service providers.

» Most SMEs are satisfied with the services of external service providers

90% of all SMEs that make use of external service providers for preparing their financial statements consider the quality of the services received as (very) good. More than three-quarters are also (very) satisfied regarding the advice given (82%) and the time efficiency (77%) of these service providers. Their costs are regarded as (very) satisfactory by 58% of SMEs using their services. In addition to preparing financial statements, filing tax returns is the most prominent service for which SMEs hire external service providers. 94% of Austrian SMEs do so.

» SMEs encounter challenges in accounting

More than half (58%) of Austrian SMEs consider accounting requirements as complex. Moreover, most SMEs consider the time required for preparing accounting and financial reports (57%) and the costs of complying with accounting requirements (56%) to be high or very high. The availability of expertise to assist the company in accounting is considered to be rather or very low by more than half (58%) of SMEs.

» Legal interest representations are the main source of information for self-preparers

More than half of Austrian SMEs which prepare financial statements without help from an external service provider receive information and advice regarding financial reporting requirements from their local business association and professional organizations for public accountants and tax advisers.

2 Auditing financial statements

2.1 Introduction

In Austrian law only so called *Kapitalgesellschaften*⁴ can have a legal obligation to have their financial statements audited. If two of the following thresholds are exceeded, auditing becomes obligatory for a *Kapitalgesellschaft*:

- turnover € 9.68 million
- balance sheet total: € 4.84 million
- average number of employees: 50

As issues surrounding auditing are only relevant to SMEs with the legal form of a *Kapitalgesellschaft*, the discussion in this section is restricted to SMEs with this legal form. This restriction reduces the total number of survey participants from 786 to 342.

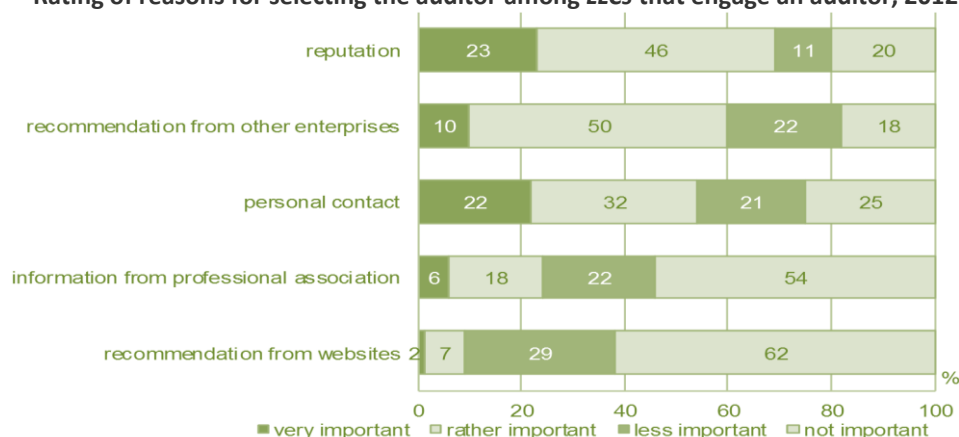
2.2 Auditing financial statements

30% of Austrian SMEs that participated in the survey and have the legal form of a Limited Liability Company (LLC) engage an auditor for checking their accounts. This proportion increases with the size of the enterprise. In medium-sized enterprises (with 50 to 249 employees), 63% of have their accounts checked by an auditor.

Almost two-thirds of LLCs that have their financial statements audited do this because they are legally required to. Consequently 35% stated that they have voluntarily chosen to have an audit. This percentage is significantly higher than practitioners' perceptions on the basis of the authors' semi-structured interviews.

The most important impact-factor in the decision process for selecting an auditor is the reputation of the auditor (69% of LLCs consider it as very/rather important), followed by recommendations from other enterprises (60%) and personal contact (54%).

Figure 14 Rating of reasons for selecting the auditor among LLCs that engage an auditor, 2012



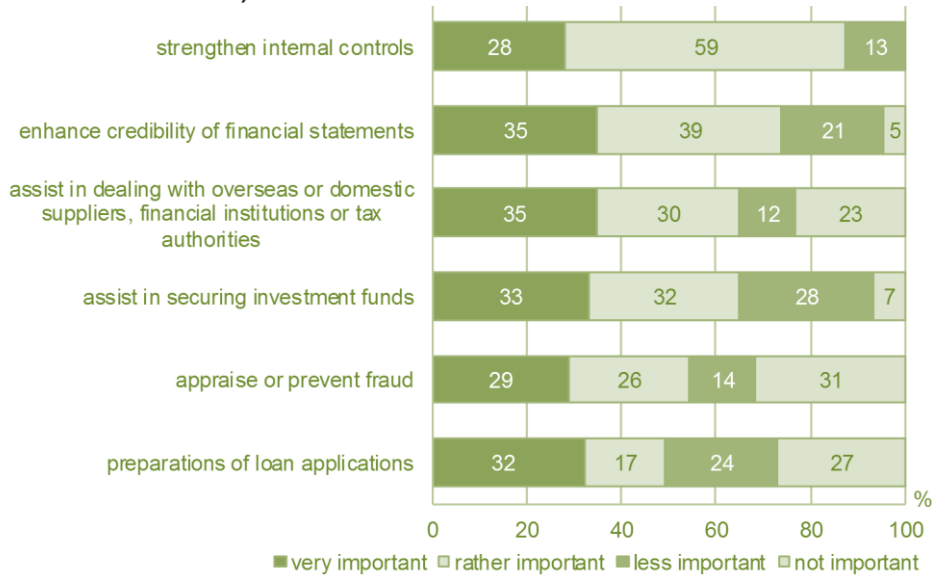
Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 61 and 95 depending on category)

⁴ *Kapitalgesellschaften* have their own legal personality and include joint stock corporations (*Aktiengesellschaften*) and limited liability companies (*Gesellschaften mit beschränkter Haftung*). The *Kapitalgesellschaft* is the owner of the enterprise and the sole debtor to its shareholders.



87% of LLCs that voluntarily commission audits state that the auditing process helps them to strengthen their internal controls. Nearly three-quarters of such firms believe that the audit enhances the credibility of their financial statements, while 65% believe that audited financial statements assist them in dealing with suppliers, financial institutions or the tax authorities.

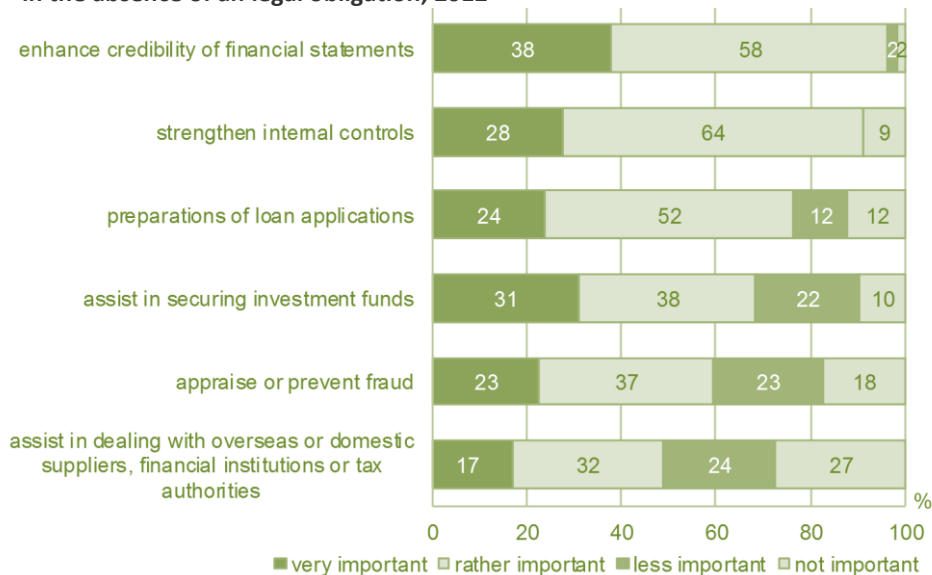
Figure 15 Reasons for auditing, LLCs which do not have a legal obligation for auditing but voluntarily commission an audit, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 29 and 26 depending on category)

55% of LLCs with a legal obligation for auditing would potentially consider engaging an auditor also in the absence of such an obligation. For these firms too the two most important reasons for carrying out an audit are to enhance the credibility of the annual accounts and to strengthen internal controls.

Figure 16 Reasons for auditing, LLCs that are required to engage an auditor and would continue to do so in the absence of an legal obligation, 2012



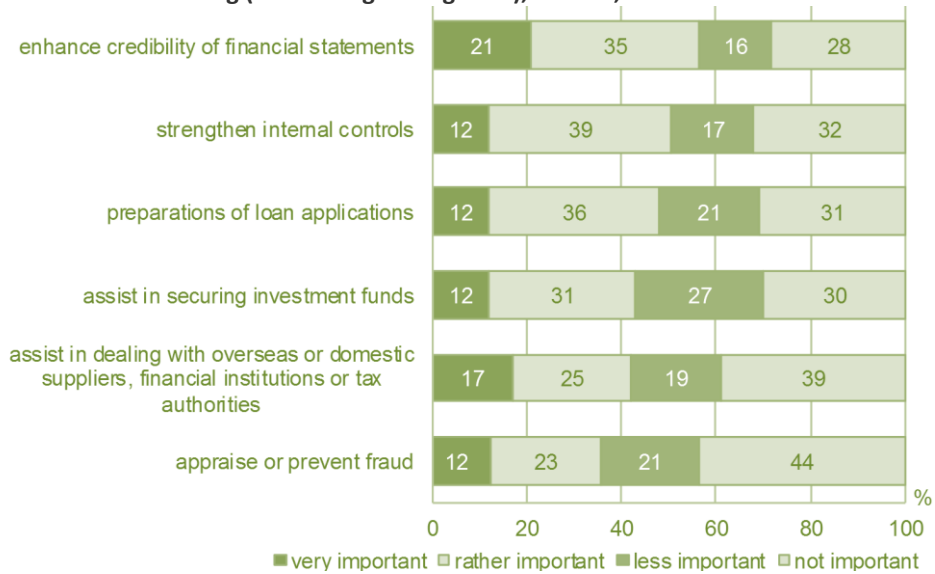
Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 34 and 36 depending on category)

Among LLCs in general, auditing is also regarded as helping to enhance the credibility of financial statements: 56% of LLCs state that this is a (very or rather) important reason for auditing. 51% think auditing is (very or



rather) important in strengthening their internal controls, and 48% believe auditing is helpful for preparing loan applications.

Figure 17 Reasons for auditing (besides legal obligation), all LLCs, 2012

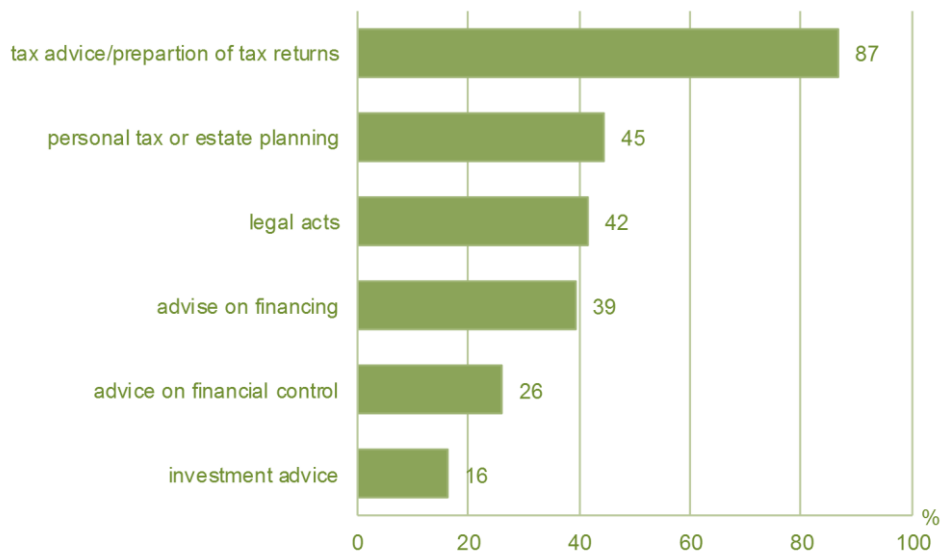


Source: Austrian Institute for SME Research, online survey October/November 2012 (n between 257 and 265 depending on category)

Only 14% of LLCs commission non-audit services from an auditor.

87% of these enterprises use the auditor for tax advice and/or the preparation of tax returns. 45% make use of personal tax or estate planning offered by the auditor. 42% ask the auditor to carry out legal procedures and 39% ask for advice on financing.

Figure 18 Type of non-audit services received from an auditor, LLCs that receive non-audit services (6% of all SMEs), 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=43)



2.3 Key Results

» *The auditor's reputation is the most important factor in choosing an auditor*

The most important factor in an SME's decision process for selecting an auditor is the reputation of the auditor. 69% of enterprises consider it as very/rather important.

» *Austrian SMEs see many benefits in having their financial statements audited*

87% of those corporations that voluntarily choose to have their financial statements audited see the audit as help to strengthen their internal control system. In addition, 74% of such firms believe that the audit enhances the credibility of their financial statements, while 65% see the audit as being useful in dealing with suppliers, financial institutions or the tax authorities. Those corporations that are legally obliged to commission an audit but which would also engage an auditor without this obligation also see these three factors as being the most important benefits of the audit.

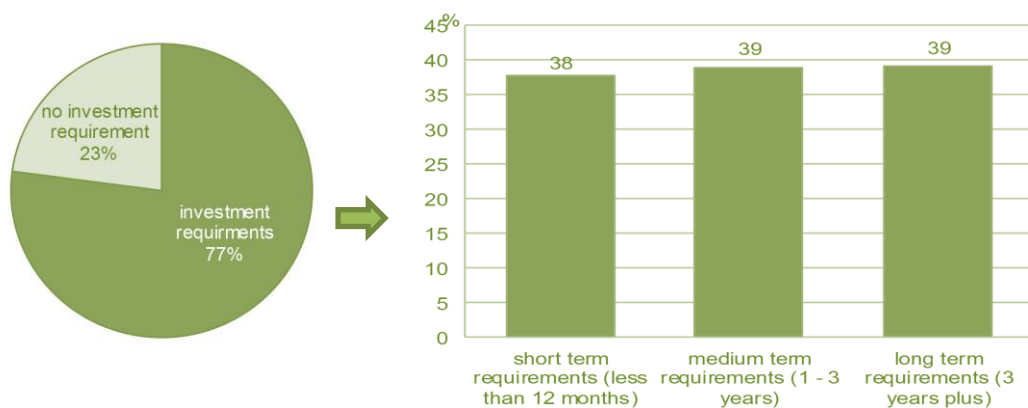
» *Auditors do not often provide non-audit services to their clients*

Only 14% of Austrian SMEs with the legal form of a LLC commission non-audit services from the auditor. 87% of these enterprises use the auditor for tax advice and/or the preparation of tax returns.

3 SME financing

77% of all SMEs had investment requirements in the last three years. 39% of them had long term (more than 3 years) investment requirements, another 39% medium term (1 to 3 years) requirements, and 38% had short term (less than 12 months) investment requirements⁵.

Figure 19 Investment requirements in the last 3 years, Austrian SMEs, 2012

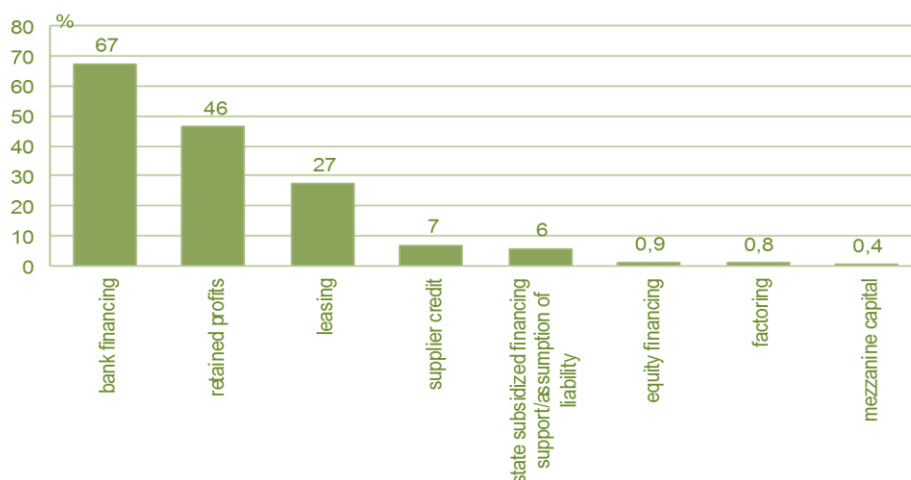


Source: Austrian Institute for SME Research, online survey October/November 2012 (n=753)

Investment requirements increase with the size of the enterprise. 27% of SMEs with less than 5 employees reported no investment requirements but only 5% of medium-sized enterprises (with 50 to 249 employees) did so. All start-up enterprises have had investment requirements over the last 3 years. Compared to other stages of business development, SMEs in the growth phase have the highest investment needs (85% of firms in the growth phase reported investment requirements).

Bank financing is the most common source of financing to meet SMEs' investment requirements in Austria. Two-thirds of Austrian SMEs which had investment requirements over the last three years used bank financing to meet these requirements. 46% of all SMEs with investment requirements used retained profits. 27% use leasing, 7% supplier credits and 6% state subsidized financing support. Equity financing, factoring and mezzanine capital were hardly ever used (less than 1%).

Figure 20 Source of finance for investments among SMEs with investment requirements in the last 3 years, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=599)

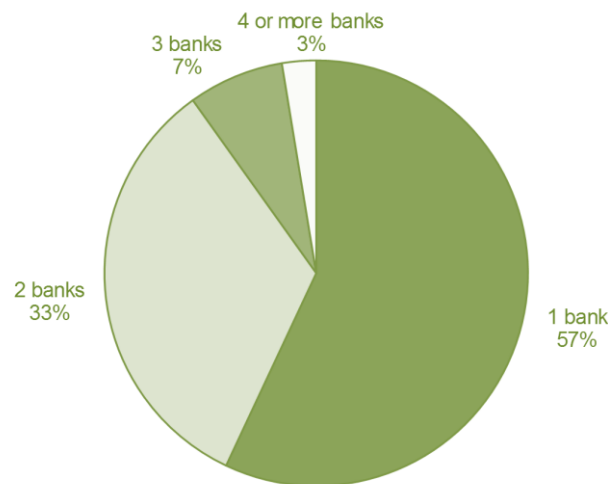
⁵ Respondents could report any combination of investment requirements, so these figures can add up to more than 100%.



Bank financing becomes more important for longer-term investments. While 60% of Austrian SMEs met their short-term requirements with bank financing, 78% did use bank finance for long-term requirements. Self-financing (from retained profits) has a bigger role in short- and medium-term investments than in long-term investments: around 55% of Austrian SMEs with short- or medium-term investment requirements used retained profits but 38% of SMEs with long-term requirements did so.

Most SMEs that met their investment requirements at least partly with bank financing hold bank accounts with one bank only (57% of such enterprises). 33% of such SMEs work with 2 banks and the remaining 10% hold accounts in 3 or more banks.

Figure 21 Number of banks where SMEs hold bank accounts among Austrian SMEs that had investment requirements in the last 3 years and met them (at least partly) with bank financing, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=420)

3.1 Key Results

» *Three quarters of all SMEs had investment requirements in the last three years*

» *Banks are SMEs' most common source of financing for their investments in Austria*

Two-thirds of Austrian SMEs which had investment requirements over the last three years used bank financing to meet these requirements. Equity financing, factoring and mezzanine capital were hardly ever used (less than 1%)

» *Customer loyalty is common*

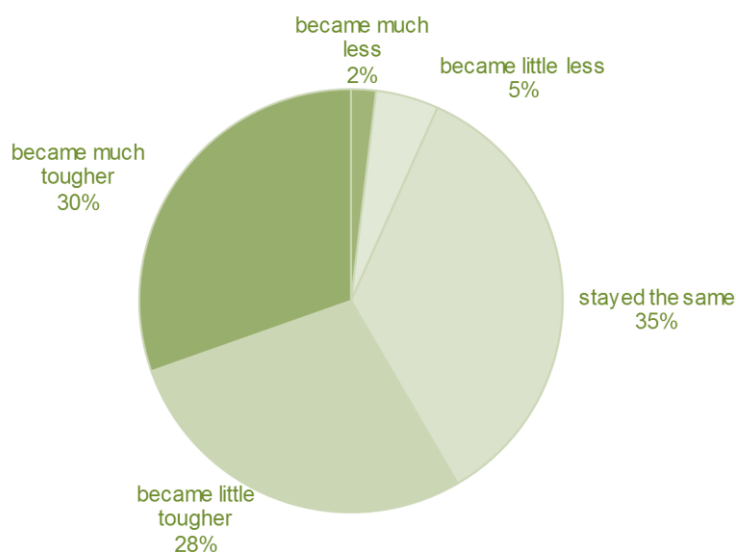
The majority of SMEs in Austria (57%) hold bank accounts with just one bank.

4 Financial reporting and access to finance

4.1 Banks' documentation requirements

Most SMEs that used bank financing to finance at some of their investment requirements over the last 3 years believe that bank requirements concerning the provision of financial information and strategies have become tougher. 30% of such SMEs state that bank requirements became much tougher, 28% that they became only a little tougher, while 35% say that bank requirements stayed the same. Just 7% of such SMEs report that banks relaxed their information requirements.

Figure 22 Change in bank requirements concerning the provision of financial information and strategies in the last 3 years, Austrian SMEs that had investment requirements in the last 3 years and met them (at least partly) with bank financing (52% of all SMEs), 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=412)

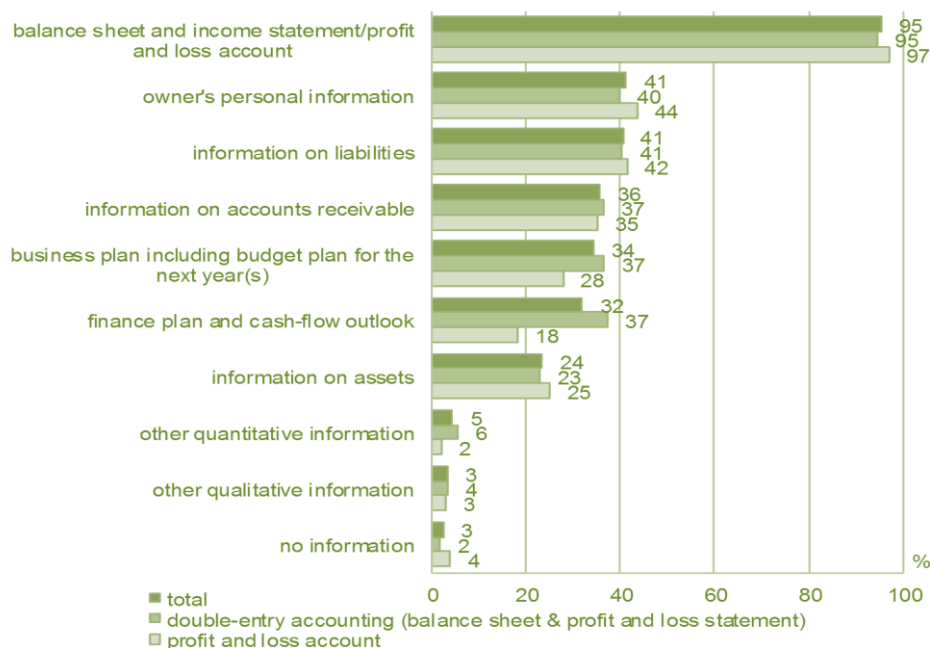
The most striking changes are reported from SMEs where the business was in a consolidation/shrinking phase: 57% of such firms stated that bank requirements had become much tougher and a further 18% reported that they have had become a little tougher.

Those firms that report more financial information are less likely to report that bank information requirements have become tougher. Thus, while 34% of SMEs that only producing income statements say that bank requirements have become much tougher, the comparable figure for SMEs that prepare both balance sheets and profit and loss accounts report is 28%. LLCs that have their financial statements audited, also encounter fewer challenges. While 64% of SMEs that do not have their financial statements audited perceive that the banks' documentation requirements have become tougher over the past three years, only 53% of those who have their financial statements audited do so.

The most important information which had to be provided to the banks when applying for a credit in the last three years was the balance sheet plus the income statement or the profit and loss account. 95% of Austrian SMEs stated that these documents were required. Banks also frequently requested personal information about the firm's owner and information on the firm's liabilities (both were required from 41% of SMEs that financed their investment requirements at least partly with bank financing).

Information on accounts receivable was much more important for short-term financing (required for 50% of SMEs with bank financing of investment requirement) than for long-term financing (27%).

Figure 23 Information required by banks when applying for a credit by accounting system, Austrian SMEs that had investment requirements in the last 3 years and met them (at least partly) with bank financing, 2012

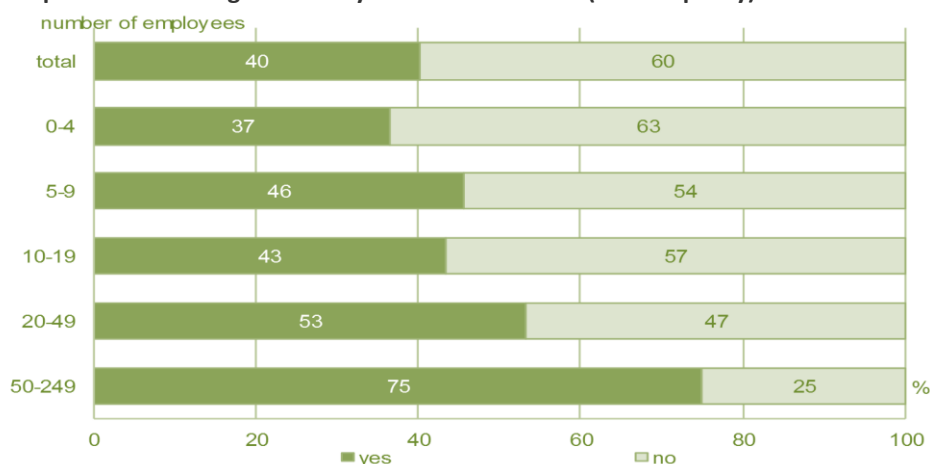


Source: Austrian Institute for SME Research, online survey October/November 2012 (n=416)

4.2 Applications for bank financing

40% of SMEs that used bank financing in the last 3 years applied for short-term financing. This share increases with the size of the enterprise: in medium-sized enterprises (with 50 to 249 employees), 75% of such SMEs applied for short-term financing.

Figure 24 Application for short-term finance, by number of employees among SMEs with investment requirements during the last 3 years that met them (at least partly) with bank financing, 2012



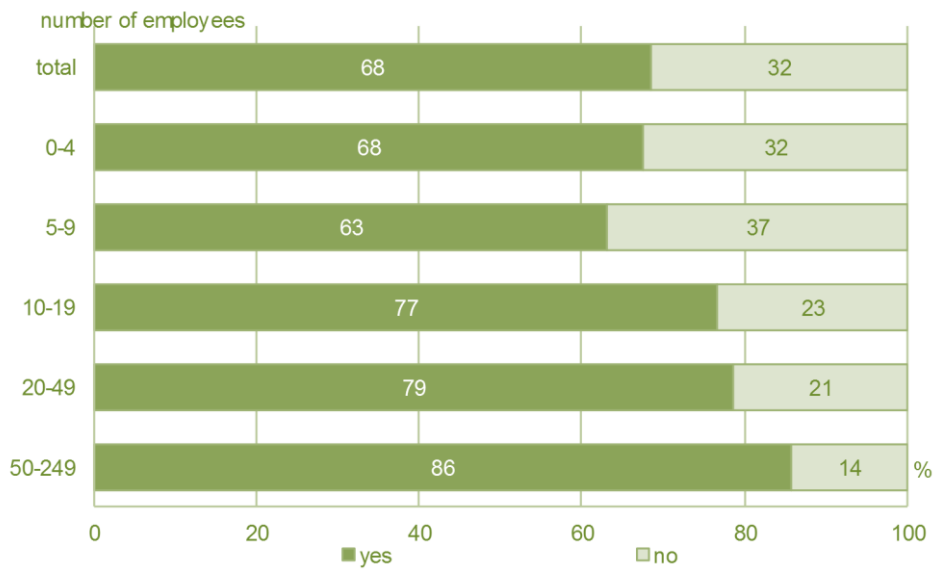
Source: Austrian Institute for SME Research, online survey October/November 2012 (n=408)

More than two-thirds of Austrian SMEs that used bank financing in the last 3 years applied for long term finance⁶. This percentage also rises as the number of employees increases.

⁶ some firms applied for both short- and long-term finance



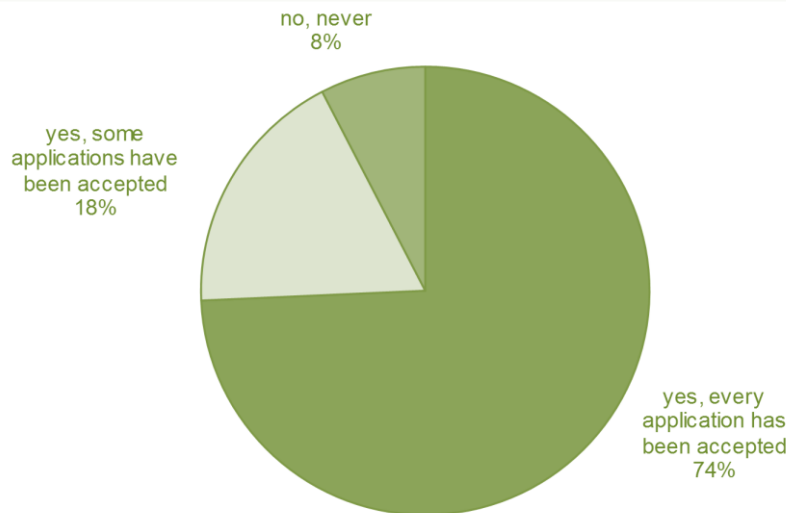
Figure 25 Applications for long-term finance, by number of employees among SMEs with investment requirements in the last 3 years that met them (at least partly) with bank financing, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=404)

74% of Austrian SMEs that applied for short-term bank financing in the last 3 years stated that all of their loan applications had been accepted. 18% declared that just some applications had been accepted and 8% stated that all their application had been refused.

Figure 26 Acceptance of applications for short-term finance among SMEs with investment requirements during the last 3 years, met them (at least partly) with bank financing and applied for short-term financing, 2012

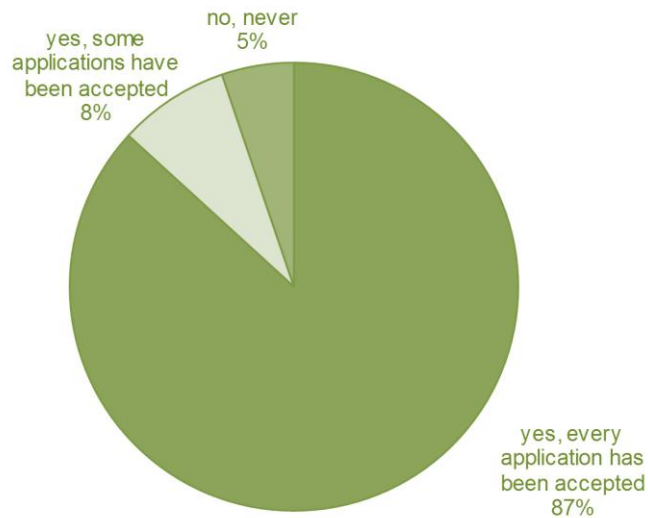


Source: Austrian Institute for SME Research, online survey October/November 2012 (n=168)

87% of SMEs with investment requirements that applied to banks for long-term financing in the last 3 years stated that every application had been accepted, another 8% stated that some of their applications were accepted and only 5% reported that all applications were refused.



Figure 27 Acceptance of applications for long-term finance, SMEs with investment requirements in the last 3 years, met them (at least partly) with bank financing and applied for long-term financing, 2012



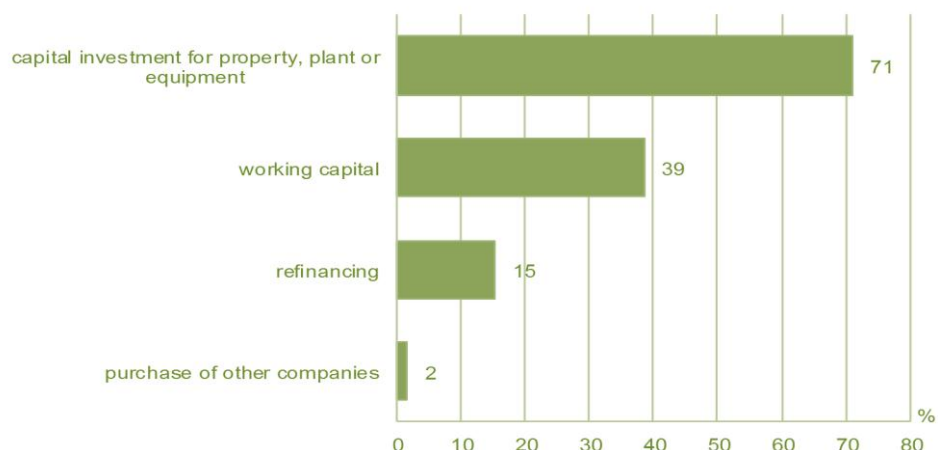
Source: Austrian Institute for SME Research, online survey October/November 2012 (n=277)

The most important reported reason why credit applications were (partly or fully) refused was a lack of security. 81% of SMEs with refusals of credit applications in the last 3 years mentioned this reason. 36% of such SMEs quoted that the bank was not satisfied with their enterprise's development.

4.3 Purpose of the loans

71% of Austrian SMEs that applied for loans in the last 3 years were seeking finance for capital investment in property, plant, or equipment. 39% were planning to use the money to boost working capital, and 15% for refinancing existing obligations. Only 2% applied for a credit to purchase another company.

Figure 28 Purpose of the loans applied for in the last 3 years, SMEs with investment requirements in the last 3 years that met them (at least partly) with bank financing, 2012



Source: Austrian Institute for SME Research, online survey October/November 2012 (n=365)



4.4 Key Results

» *Banks' documentation requirements became tougher*

Most Austrian SMEs that have used bank financing to meet investment requirements over the last 3 years believe that bank requirements concerning the provision of financial information and strategies have increased. SMEs that prepare more detailed financial statements (e.g. balance sheets and not only income statements) and have their financial statements audited are less likely to see the banks as having increased their information requirements than are SMEs that prepare less detailed statements.

» *Financial statements are nearly always required by banks*

Financial statements, either in the form of a profit and loss account or as a balance sheet and income statement, were most important information which had to be provided to banks when applying for a credit in the last three years. 95% of Austrian SMEs stated that these documents were required.

» *Lack of security is the most common reason for credit applications being refused*

81% of Austrian SMEs that had credit applications refused in the last 3 years mentioned that this was because they did not provide sufficient security to the bank.

» *Loans are usually designed to finance investment in property, plant or equipment*

71% of Austrian SMEs that applied for loans in the last 3 years aimed at capital investments for property, plant or equipment.



Annex

Methodology

Definition of an SME

This report focuses on SMEs. According to an EU recommendation, the number of persons employed and either the level of turnover or the size of the balance sheet determine whether a company is a micro, small or medium-sized enterprise (together these make up the SME sector) or a large enterprise.

Table 1 Thresholds of the SME definition by EU recommendation

	Persons employed	Turnover in € Mio	or	Balance sheet total in € Mio
Micro enterprise	< 10	≤ 2		≤ 2
Small enterprise	< 50	≤ 10		≤ 10
Medium-sized enterprise	< 250	≤ 50		≤ 43

Source: European Commission

These limits apply to autonomous companies only. This means that the company is not a partner or linked to other companies.

Structure of the Austrian SME sector

To describe the structure of the Austrian SME sector hereafter, the survey draws on data from the Structural Business Statistics (SBS) for 2010 issued by Statistics Austria. This is the most accurate information currently available, as the data for 2011 will be published at the end of June 2013. The data provide important indicators concerning structure, activities, employment, investment activities and performance of enterprises at the national and regional levels. They are grouped according to NACE Rev. 2. This is the current European statistical classification of economic activities used by Eurostat and all national European statistical institutions like Statistics Austria. NACE is the acronym for “**N**omenclature **s**tatistique des **A**ctivités économiques dans la **C**ommunauté Européenne”.

The SBS data cover the market-oriented economy. This includes

- Mining and quarrying (Section B of NACE REV. 2),
- Manufacturing (Section C of NACE REV. 2),
- Electricity, gas, steam and air conditioning supply (Section D of NACE REV. 2),
- Water supply; sewerage, waste management and remediation activities (Section E of NACE REV. 2)
- Construction (Section F of NACE REV. 2)
- Wholesale and retail trade; repair of motor vehicles and motorcycles (Section G of NACE REV. 2)
- Transportation and Storage (Section H of NACE REV. 2)
- Accommodation and food service activities (Section I of NACE REV. 2)
- Information and Communication (Section J of NACE REV. 2)
- Financial and insurance activities (Section K of NACE REV. 2)
- Real estate activities (Section L of NACE REV. 2)
- Professional, scientific and technical activities (Section M of NACE REV. 2)
- Administrative and support service activities (Section N of NACE REV. 2)
- Repair of computers and personal and household goods (Division 95 of NACE REV. 2)



Agriculture and forestry, public sector, education, human health and personal services (such as hairdressers, textile cleaners) are not included in the market-oriented sector.

Statistics Austria is the provider of official statistics in Austria and compiles its figures in line with guidelines set by Eurostat, the EU's statistical office. This guarantees the comparability of the figures in Structural Business Statistics with figures produced by other EU member states. In the SBS database SMEs are defined solely by the number of persons employed. This is because it is not possible to cross-reference the level of employment with level of turnover and no figures for balance sheet are collected in the SBS database.

Financial situation of SMEs in Austria

For analysing the financial situation of SMEs in Austria hereafter, the survey draws on data from the Balance Sheet Database of the Austrian Institute for SME Research which allows for intercompany comparisons/benchmarking by using management ratios, assets and liability structure, and the financial or the cost and performance structure at different levels. These levels include industry, industry group, economic sector, region or federal state level. Cross-section analyses and longitudinal (cohort) analyses are also possible. The database consists of about 84,000 anonymized annual accounts (double-entry accounting) for each year. For SMEs in the market-oriented economy⁷ (see above for definition) approximately 70,000 annual accounts (double-entry accounting) were analysed for the year 2010/11 (accounting date between July 1st, 2010 and June 30th, 2011). In the Balance Sheet Database SMEs are defined in line with the definition by the EU (see Table 7 above).

Online survey

The chapters "Accounting practices in Austrian SMEs", "Auditing financial statements", "SME financing", and "Financial reporting and access to finance" draw on data from an online survey that was conducted between October and November 2012. The online survey was created with Lime Survey – an open source tool for the development of online surveys. On October 16th, 2012 the invitation to participate in the survey was sent to about 17,300 e-mail addresses from the address database provided by *Herold Business Data GmbH*. Around 1,000 e-mail invitations were not delivered due to wrong or invalid addresses. On November 5th, 2012 a reminder was sent to all enterprises that had not returned the completed questionnaire. The online survey was available until November 12th, 2012. Finally, 786 surveys were completed properly and were used for the analysis.

It was not a requirement that all questions had to be answered and questionnaires where at least two-thirds of all questions were answered were included in the analysis. All results have been weighted by industry and by the number of employees according to the basic company population in Austria. Data analysis has been carried out using IBM SPSS Statistics 19. In addition to this report a document containing all the output tables has been produced. This document includes all results by sector and by enterprise size.

⁷ In order to avoid biased average values the following sectors were excluded due to their high heterogeneity: Holding companies and real estate activities.



The Austrian SME sector

Structure of the Austrian SME sector

In Austria 99.7% of all enterprises in the “market-oriented economy”⁸ are SMEs with less than 250 people employed⁹. Of them about 87% are so-called micro-enterprises with less than 10 persons employed. Another 10.6% are small enterprises with 10 to 49 jobholders. 1.6% can be categorized as medium-sized (50 – 249 persons employed).

Table 2 Number of enterprises, by size-classes, market-oriented economy, 2010

Size of enterprise	Number of enterprises	Share in total number of enterprises in %
Micro enterprise (less than 10 employed)	269,899	87.4
Small enterprise (10-49 employed)	32,683	10.6
Medium-sized enterprise (50-249 employed)	5,085	1.6
SME total (up to 249 employed)	307,667	99.7
Large-sized enterprise (250 or more employees)	1,068	0.3

Source: Statistics Austria

As Table 3 shows, SMEs are distributed fairly equally across the different industries in Austria.

Table 3 Number of SMEs, by NACE branch, market-oriented economy, 2010

NACE branch	Number of SMEs	Share of total number of enterprises in branch in %
Manufacturing	24,895	98.2
Construction	31,125	99.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	74,248	99.7
Transportation and Storage	13,874	99.5
Accommodation and food service activities	44,147	99.9
Information and Communication	16,717	99.8
Financial and insurance activities	6,930	99.1
Real estate activities	17,153	99.9
Professional, scientific and technical activities	59,916	99.9
Administrative and support service activities	12,916	99.2
Other industries	5,746	99.4

Source: Statistics Austria

SMEs employ almost 1.8 million persons, including around 0.3 million self-employed. This represents almost 67% of all persons employed in the market-oriented economy in Austria. As Table 4 shows, almost a quarter of Austrians employed in the market-oriented economy works in micro-enterprises, about 23% in small enterprises, and nearly 19% in medium-sized enterprises. Most self-employed people are to be found in the micro-enterprise sector.

Table 4 Number of persons employed and employees, by size-classes, market-oriented economy, 2010

Size of enterprise	Persons employed (employed and self-employed)		Employees	
	number	share in %	number	share in %
Micro enterprise	663,937	24.8	417,875	17.3
Small enterprise	624,884	23.3	601,131	24.9
Medium-sized enterprise	506,740	18.9	504,491	20.9
SME total	1,795,561	66.9	1,523,497	63.2
Large-sized enterprise	886,515	33.1	886,264	36.8

Source: Statistics Austria

⁸ according to NACE (Nomenclature statistique des Activités économiques dans la Communauté Européenne), the current European statistical classification of economic activities used by Eurostat and all national European statistical institutions;

⁹ self-employed persons and employees;



By industry, the highest share of people employed in SMEs is to be found within accommodation and food service activities (95%) as well as within professional, scientific and technical activities (93%).

Table 5 Number of persons employed and employees in SME, by branch, market-oriented economy, 2010

NACE branch	Persons employed in SMEs	SME share of branch employment in %	Employees in SMEs	SME share of branch employees in %
Manufacturing	319,403	53.4	301,597	52.0
Construction	226,972	82.8	204,759	81.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	410,068	66.5	343,248	62.5
Transportation and Storage	105,777	50.8	92,892	47.5
Accommodation / food service	250,379	94.8	202,649	93.6
Information and Communication	62,703	66.2	47,817	59.9
Financial and insurance activities	51,657	41.4	46,302	38.8
Real estate activities	40,369	90.6	28,002	87.0
Professional, scientific and technical activities	195,074	93.1	137,882	90.6
Administrative and support service activities	104,898	55.1	93,584	52.3
other industries	28,261	49.5	24,765	46.2

Source: Statistics Austria

Approximately 17% of the turnover of the market-oriented economy is generated by micro-enterprises, another 22% by small enterprises, and more than 23% by medium-sized enterprises. In total, the contribution of the SME sector to the total turnover of the market-oriented economy is 62.6% (about € 398 billion).

Table 6 Turnover in € millions, by size-classes, market-oriented economy, 2010

Size of enterprise	Turnover in € millions	Share of total in %
Micro enterprise	109,545	17.2
Small enterprise	139,826	22.0
Medium-sized enterprise	148,520	23.4
SME total	397,892	62.6
Large-sized enterprise	237,599	37.4

Source: Statistics Austria

By branch, SMEs within professional, scientific and technical activities as well as within accommodation and food service activities contribute most to the total turnover (SMEs account for more than 90% of turnover in these branches).

Table 7 Turnover of SME in € millions, by branch, market-oriented economy, 2010

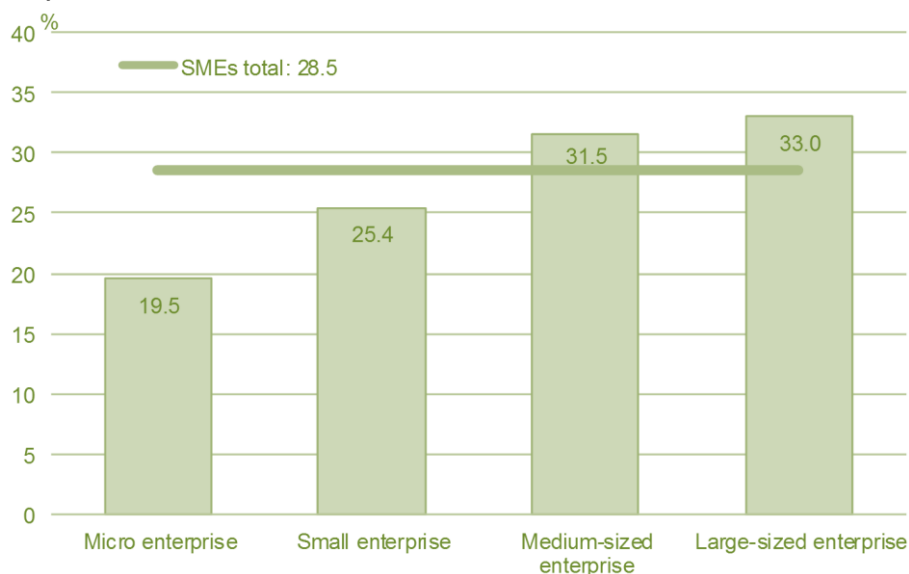
NACE branch	Turnover of SMEs in € millions	SME share of branch turnover in%
Manufacturing	63,273	41.1
Construction	30,038	74.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	166,544	76.8
Transportation and Storage	18,621	51.3
Accommodation and food service activities	13,674	92.2
Information and Communication	9,458	52.0
Financial and insurance activities	24,049	39.0
Real estate activities	12,206	85.5
Professional, scientific and technical activities	22,899	92.5
Administrative and support service activities	14,582	80.1
other industries	22,548	62.4

Source: Statistics Austria

Financial situation of SMEs in Austria

For Austrian SMEs in the market-oriented economy equity amounted to 28.5% of total assets. This “equity ratio” is higher for enterprises in the larger size classes.

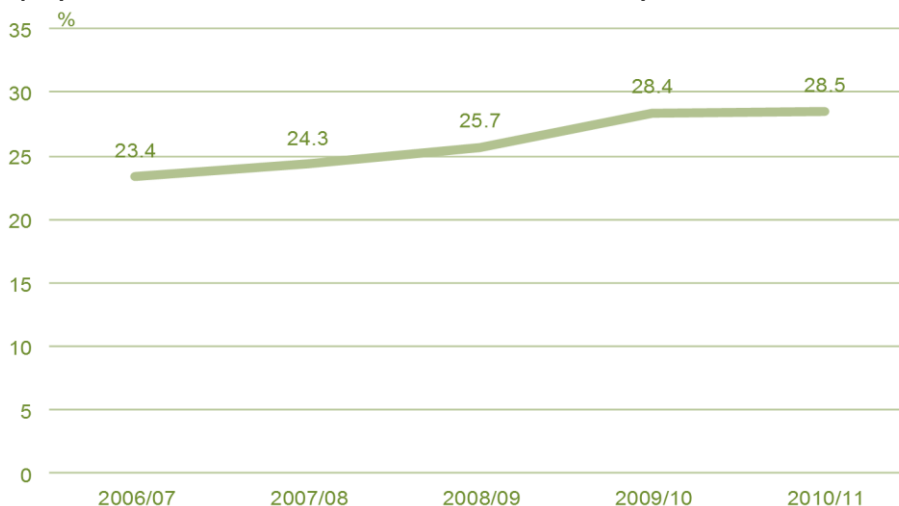
Figure 29 Equity as a share of total assets by size-class of company, market-oriented economy, %, 2010/11



Source: Austrian Institute for SME Research, Balance Sheet Database

Between 2006/07 and 2009/10 the average equity ratio in Austrian SMEs increased by 5 percentage points. It remained at this high level in 2010/11.

Figure 30 Equity as a share of total assets, market-oriented economy, %, 2006/07 – 2010/11

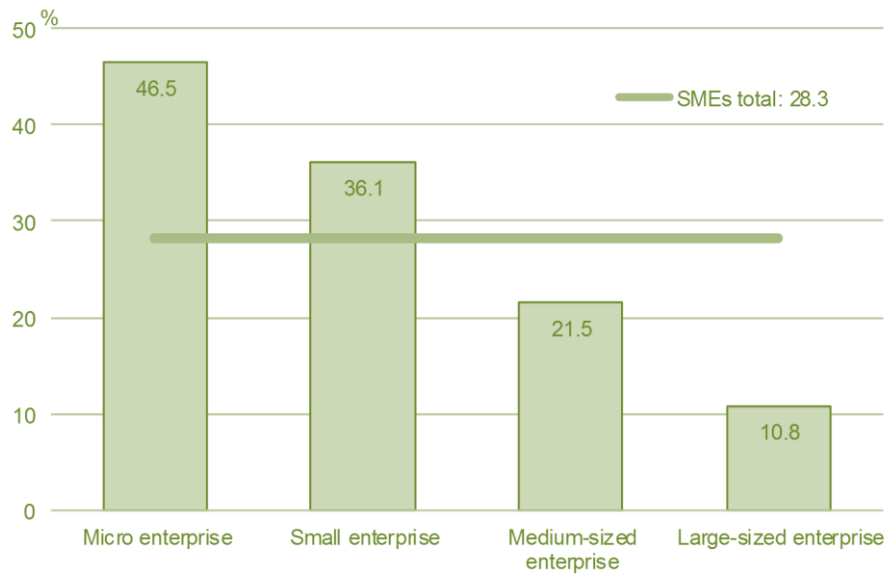


Source: Austrian Institute for SME Research, Balance Sheet Database

On average Austrian SMEs’ indebtedness to banks accounts for 28% of SMEs’ total assets. The smaller the enterprise, the higher the bank indebtedness: while indebtedness to banks accounts for almost 47% of assets in micro-enterprises, this percentage is considerably lower in small enterprises (36%), medium-sized enterprises (21.5%) and large enterprises (10.8%).



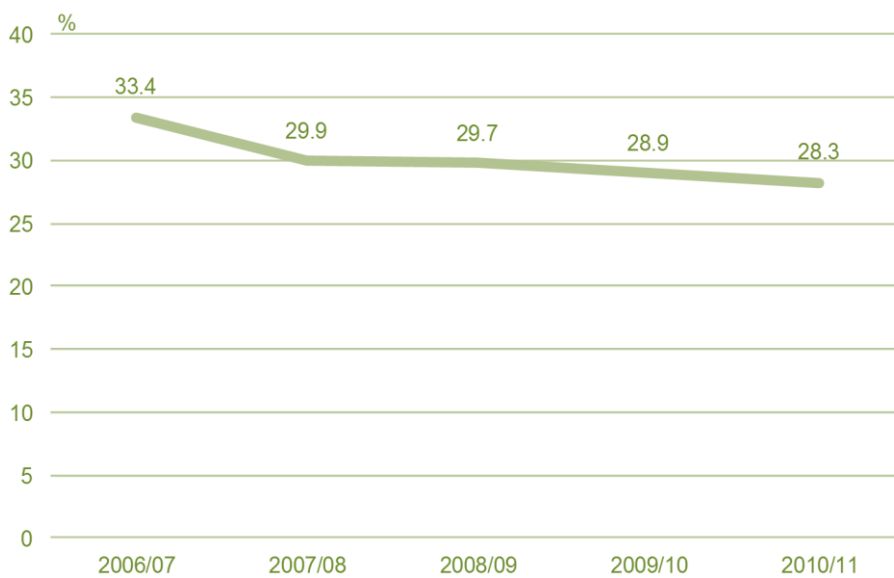
Figure 31 SMEs indebtedness to banks as a share of total assets, by size-class of company, market-oriented economy, %, 2010/11



Source: Austrian Institute for SME Research, Balance Sheet Database

The average debt ratio decreased by more than 5 percentage points to 28.3% between 2006/07 and 2010/11. This fall almost exactly balances the increase in the equity ratio over the same period.

Figure 32 SMEs indebtedness to banks as a share of total assets, market-oriented economy, %, 2006/07 – 2010/11



Source: Austrian Institute for SME Research, Balance Sheet Database



Organization Profiles

The Austrian Institute for SME Research

The Austrian Institute for SME Research (KMU Forschung Austria) specializes in social and economic research focusing on small and medium-sized enterprises (SMEs). The Institute was founded in 1954 and it is an independent, private, non-profit organization. It mainly informs decision making processes in the public sector. The main addressees of the Institute's research are institutions responsible for economic policy-making and business development, enterprises and their advisors (management and tax consultants, trustees, banks, etc.) as well as universities and other higher education and research institutions. Their research outputs are generally available to the public.

The institute has about 35 highly qualified staff members with many years of experience in applied economic research. A variety of academic backgrounds and research areas within the institute ensure an interdisciplinary approach. Additionally, some staff members have longstanding work experience in the private sector - partly in executive positions. This adds to their practice-orientation and focus on implementation. They put an emphasis on continuous training - in research methods and research management as well as social and personal skills.

The Austrian Institute for SME Research co-operates closely with research institutions from almost every European country and numerous international organizations. It is *inter alia* a network member of the Austrian Cooperative Research (ACR) and of the European Network for Social and Economic Research (ENSR).

The World Bank Centre for Financial Reporting Reform

The Centre for Financial Reporting Reform (CFRR) is a World Bank unit operating in Vienna, Austria, responsible for assisting countries in the Europe and Central Asia region with corporate sector financial reporting reform activities.

The CFRR provides knowledge and technical assistance services to support governments and other stakeholders in their reform efforts. The CFRR knowledge services include analytical and advisory activities, in the form of technical assistance, capacity building, learning-, and knowledge transfer activities. In addition to preparing the diagnostic Accounting and Auditing Reports on the Observance of Standards and Codes (A&A ROSC reports) and related follow-up activities, the CFRR is presently implementing two major technical assistance (TA) programs:

(i) The Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS)

The Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS) is a multi-donor trust fund (MDTF) that aims to assist countries in adopting and implementing effective corporate financial reporting systems, aligned with the EU *acquis communautaire*. Beneficiary countries currently include Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro, Moldova and Serbia. The MDTF currently finances a World Bank-executed program (referred to as the regional program), which makes available activities to all countries, and a national project in Albania which is led by the Albanian Government. Funding for the REPARIS MDTF is provided by the Austrian Development Agency, the Austrian Finance Ministry, the Grand Duchy of Luxemburg, and the Swiss State Secretariat for Economic Affairs. The REPARIS MDTF is managed by the Vienna-based World Bank Centre for Financial Reporting Reform (CFRR). It was established in late 2008 and is currently due to run until the end of 2013.

(ii) The Financial Reporting Technical Assistance Program (FRTAP)

The Financial Reporting Technical Assistance Program (FRTAP) is a technical assistance program for the new EU member states financed by the government of Switzerland. FRTAP is a fee-for-service program, with the CFRR acting as its implementing agency, which aims to assist the new member states in implementing the requirements of the *acquis communautaire* in the field of financial reporting.



The Austrian Federal Economic Chamber (WKOE)

The legal representation of interests for Austrian business is handled by the Economic Chamber Organization. This consists of the Federal Economic Chamber (Wirtschaftskammer Oesterreich or WKOE, headquartered in Vienna), and nine Regional Chambers in the federal provinces. Together these bodies represent more than 400,000 member companies. Every single person who is entitled to operate an independent business venture in crafts and trades, industry, mining, finance, banking and insurance, transport, information and communication, broadcasting, tourism and leisure, as well as other services, is a member of the WKOE by Austrian law.

In addition to industry sectors, trade groups, trade associations, guilds and boards, the WKOE also provides services for its members through its departments which are responsible for tasks related to policy, organization and service provision.

The Economic Policy Department of the WKOE is active in monitoring and improving the framework conditions for economic activity and entrepreneurship in Austria. It establishes facts and designs strategies and solutions on issues relevant to economic and societal development on the national, European, and international level and communicates them to policy makers, social partners, scientists, NGOs, and the media.

The Institute for Economic Promotion (Wirtschaftsfoerderungsinstitut, WIFI) of the WKOE was founded in 1946 to offer professional support and further education to Chamber members. With a market share of 20 percent, the WIFI is the largest training and adult education institute in Austria. Some 320.000 participants attend 26.000 courses taught by 11.000 freelance trainers in Austria a year.

This publication was produced with the generous support of:



This publication was prepared by:



The World Bank Centre for Financial Reporting Reform

Centre for Financial Reporting Reform

Europe and Central Asia Region - The World Bank

Praterstrasse 31 – 19th Floor, 1020 Vienna, Austria

Phone: +43 (0)1 2170700

Email: cfr@worldbank.org

Web: www.worldbank.org/cfr



KMU Forschung Austria

Austrian Institute for SME Research

Gusshausstrasse 8, 1040 Vienna, Austria

Phone: +43 (0)1 5059761

Email: office@kmuforschung.ac.at

Web: www.kmuforschung.ac.at